

REPORT ON EXAMINATION
OF THE
BERKLEY REGIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2004 of the

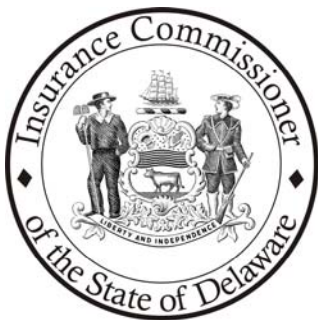
BERKLEY REGIONAL INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Annette Handy

DATE: 1 FEBRUARY 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 1ST DAY OF FEBRUARY 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
BERKLEY REGIONAL INSURANCE COMPANY
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is positioned above a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 1ST day of FEBRUARY 2006.

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November 8, 2005

Honorable Alfred W. Gross, Chairman
Financial Condition Subcommittee
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2662

Honorable Susan F. Cogswell, Commissioner
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Department of Insurance
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State Office Building, #3110
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Honorable Sally McCarty, Commissioner
Secretary-Treasurer, Midwestern Zone
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Honorable Alfred W. Gross, Commissioner
Secretary, Southeastern Zone
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable Matthew P. Denn, Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

Commissioners:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority letter 05.022, an examination has been made of the affairs, financial condition and management of the

Berkley Regional Insurance Company

hereinafter referred to as "Company" or "BRIC", incorporated under the laws of the State of Delaware. The examination was conducted at the Company's administrative office located at 11201 Douglas Avenue, Urbandale, IA, 50322. The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware 19801.

The examination was conducted concurrently with that of affiliates Firemen's Insurance Company of Washington D.C (Firemen's) also a Delaware domestic insurance company, Tri-State Insurance Company of Minnesota, (Tri-State, MN), Acadia Insurance Company (Acadia, ME) and Chesapeake Bay Property and Casualty Insurance Company (Chesapeake, ME), and Continental Western Insurance Company (CWIC, IA). Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of June 30, 2000, by the State of Missouri. This examination covered the period July 1, 2000, through December 31, 2004, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events occurring subsequent to the latter date were reviewed and have been commented upon to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to noted items in this report, the following topics were reviewed and are included in the workpapers of this examination. No exceptions or errors were noted during our review of these items:

- Fidelity Bond and Other Corporate Insurance
- Corporate Records
- Employees and Agents Welfare
- NAIC Ratios
- Legal Actions
- Commitments and Contingent Liabilities
- Risk Based Capital
- All Asset and Liability Items Not Mentioned in This Report

Workpapers prepared by the Company's external accounting firm, KPMG, LLP, New York, New York, in connection with their annual audit, were reviewed and relied upon to the extent possible. INS Services, Inc was retained by the Delaware Department of Insurance to conduct a review of the Company's overall risk related to Information Systems Controls.

HISTORY

National Assurance Underwriters, Inc. (NAUI) was incorporated December 17, 1985, under the laws of the State of Missouri as a wholly-owned subsidiary of AVEMCO Insurance Company (a Maryland domiciled insurance company) and commenced business on January 28, 1987. On August 1, 1996, W.R. Berkley Corporation (WRBC) (a publicly traded holding company) of Greenwich, CT purchased all 40,000 shares of outstanding common stock of NAUI. On August 26, 1996, NAUI amended its Articles of Incorporation changing its name to Berkley Regional Insurance Company.

On December 31, 2000, WRBC contributed all common stock of the Company to Berkley Insurance Company, an indirect wholly-owned subsidiary of WRBC.

On December 31, 2000, the Company redomesticated from the State of Missouri to the State of Delaware.

CAPITALIZATION

At December 31, 2004, the Company had 40,000 common shares authorized with a par value of \$100 per share, of which all shares were issued and outstanding. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

Capitalization

<u>Date</u>	<u>Description</u>	<u>Common Shares Issued/ \$100 Par</u>	<u>Pref Shares Issued/ \$10 Par</u>	<u>Aggr. Write-ins For Special Surplus Fund</u>	<u>Common Capital Paid-In</u>	<u>Preferred Capital Paid-In</u>	<u>Gross Paid-in Contributed Surplus</u>	<u>Unassigned Funds</u>
12/31/99		40,000	65,000	0	\$4,000,000	\$650,000	\$387,072,886	(\$137,522,357)
2000	Operations (1)							21,620,687
12/31/00		40,000	65,000	0	\$4,000,000		\$387,072,886	(\$115,901,670)
2001	Operations (1)							50,367,953
12/31/01		40,000	65,000	0	\$4,000,000		\$387,072,886	(\$65,533,717)
2002	Operations (1)							103,543,288
2002	Redeem Pref. Stock (2)					(650,000)	(39,350,000)	
2002	Retro Rein (3)			\$1,002,875				(1,002,875)
12/31/02		40,000	0	\$1,002,875	\$4,000,000		\$347,722,886	\$37,006,697
2003	Operations (1)							147,995,550
12/31/03		40,000	0	\$1,002,875	\$4,000,000		\$347,722,886	\$185,002,247
2004	Dividends (4)							(71,500,000)
2004	Operations (1)							165,820,614
12/31/04		40,000	0	\$1,002,875	\$4,000,000	\$ 0	\$347,722,886	\$279,322,861

- (1) Operations are defined to include any of the following: Net income, Change in net unrealized capital gains or loss, Change in net unrealized foreign exchange capital gain or loss, Change in net deferred income tax, Change in non-admitted assets, Change in provision for reinsurance, and Cumulative effect of changes in accounting principles.
- (2) The Company redeemed all of its' issued and outstanding preferred stock on October 10, 2002 for a total of \$40 million. The redemption amount agreed to the minutes of the Board of Directors meeting on May 28, 2002.

- (3) The Company had a special surplus fund for retroactive reinsurance in the amount of \$1,002,875 effective 2002.
- (4) Dividend paid agreed to the minutes of the Board of Directors meetings.

DIVIDENDS TO STOCKHOLDERS

According to Company records for the Exam period (July 1, 2000 thru December 31, 2004) and as reflected in minutes of the Board of Directors' meeting, cash dividends have been declared and paid as follows:

<u>Year</u>	<u>Cash Dividend</u>	<u>Type</u>
2000	\$0	
2001	0	
2002	0	
2003	0	
2004	\$71,500,000	Ordinary

Berkley Insurance Company, domiciled in the State of Delaware, owns all outstanding shares of the Company.

MANAGEMENT AND CONTROL

The Company's By-Laws as amended to date, state that the business and property of the Company shall be conducted and managed by its Board of Directors. The number of directors fixed by the Charter or by the By-Laws may, by the vote of a majority of the entire Board of Directors, be increased to no more than twenty-five (25) or decreased to not less than nine (9). As of the examination date the Company had nine (9) directors. Directors are elected at the annual meeting of the stockholder and each Director serves until their successor has been elected and qualified.

The Board of Directors shall hold an annual meeting for the purpose of organization and the transaction of any business immediately after the annual meeting of the stockholders,

provided a quorum is present. Special meetings of the Board may be called by the President or a majority of the directors. The presence of a majority of the Directors constitutes a quorum at any meeting of the Board. Directors serving at December 31, 2004 were as follows:

<u>Name and Address</u>	<u>Primary Occupation</u>
William Robert Berkley Greenwich, CT	Chairman of the Board & Chief Executive Officer, W. R. Berkley Corporation
Eugene George Ballard Greenwich, CT	Senior Vice President, CFO & Treasurer, W. R. Berkley Corporation
William Robert Berkley, Jr. Greenwich, CT	Director & Executive Vice President, W. R. Berkley Corporation
Robert Paul Cole Greenwich, CT	Senior Vice President – Regional Operations, W. R. Berkley Corporation
Paul A. Hancock Greenwich, CT	Senior Vice President & Chief Corporate Actuary, W. R. Berkley Corporation
Robert C. Hewitt Greenwich, CT	Senior Vice President – Alternative Markets Operations, W. R. Berkley Corporation
Ira Seth Lederman Greenwich, CT	Senior Vice President – General Counsel & Secretary, W. R. Berkley Corporation
Clement Patrick Patafio Greenwich, CT	Vice President – Corporate Controller, W. R. Berkley Corporation
James Gerald Shiel Greenwich, CT	Senior Vice President – Investments, W. R. Berkley Corporation

The following officers had been selected by the Board of Directors and were serving at December 31, 2004.

<u>Name</u>	<u>Title</u>
William Robert Berkley	Chairman of the Board and President

Robert Floyd Buehler	Treasurer
Ira Seth Lederman	Senior Vice President and Secretary
George Eugene Ballard	Senior Vice President and Chief Financial Officer
Robert Paul Cole	Senior Vice President
Clement Patrick Patafio	Vice President, Corporate Controller, and Assistant Treasurer

Committees

There were no committees as of December 31, 2004.

The minutes of the meetings of the Stockholder and the Board of Directors which were held during the period of examination were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

AFFILIATED AGREEMENTS

Operations

Administrative Services Agreement

Effective June 21, 2002, the Company and Continental Western Insurance Company (CWIC) entered into an administrative service agreement. Under the terms of this agreement, BRIC makes use in its day to day operations of certain property, equipment and facilities of CWIC as BRIC may from time to time request. CWIC is compensated on an actual cost basis after submitting to BRIC a monthly billing within 30 days after the end of each calendar month.

Investment Advisory Agreement

The Company and Berkley Dean & Company, Inc. (Berkley Dean), a subsidiary of WRBC, entered into an Investment Advisory Agreement on August 1, 1996. Berkley Dean provides investment advisory services at an annual fee per terms in the agreement based on the net asset value of the portfolio at the end of each quarter with billing rendered on a quarterly basis at $\frac{1}{4}$ of the annual rate. For the year 2004, the Company paid a total of \$2,072,495 in fees to Berkley Dean & Company under the terms of this agreement.

Federal Income Tax Allocation Agreement

The Company is included in a consolidated income tax return in accordance with a Tax Allocation Agreement with WRBC, effective August 1, 1996. The provision for federal income tax is computed as if the Company were filing a separate federal income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the extent they are utilized in the consolidated federal income tax provision. Tax balances are settled quarterly.

Service Agreement

Effective January 1, 1997, the Company entered into a service agreement with WRBC. WRBC provides BRIC with assistance and professional advice with respect to data processing, legal, accounting and actuarial matters. Services have been provided, however, WRBC has not charged BRIC.

Standby Letter of Credit Agreement

Effective September 6, 2002, the Company executed a standby letter of credit agreement with WRBC. Pursuant to this agreement, WRBC may from time to time make loans to BRIC in an amount not to exceed \$10,000,000, and for a term not to exceed three months. As of the examination date, there were no outstanding loans resulting from this agreement.

Underwriting/Claims Services

Joint Services Agreement

Effective January 1, 2003, a joint services agreement between BRIC, Firemen's, Tri-State Insurance Company, Continental Western Insurance Company, Acadia Insurance Company, and various other affiliates within the BRIC group of companies was executed. The agreement was filed with the Delaware Department of Insurance on March 14, 2003. Appendix A of the agreement was amended to include the State of Ohio on March 1, 2005 and this amended appendix A was filed as part of the 2004 Annual Form B as Exhibit C. Under the terms of the joint services agreement, any company (appointing company) may appoint other parties to the agreement to act as managers (servicing company) for the purpose of producing, underwriting and servicing certain business sourced through said other Party including the handling and servicing of all claims, losses and legal actions resulting or arising there-from. Amounts due from the servicing company to the appointing company or vice versa, in connection with this agreement are to be settled in cash on a daily basis. At the direction of the appointing company, the servicing company will be instructed to settle such amounts either directly with the appointing company, or with BRIC as reinsurer of appointing company's business and consistent with applicable agreements between appointing company and BRIC. All such amounts paid to BRIC shall be considered full and final settlement with the Appointing Company. A statement of account for each quarter ending March 31, June 30, September 30 and December 31, shall be forwarded by the servicing company to the appointing company no later than 30 days after the end of each quarter. Accounts settled on a daily basis are to be balanced quarterly pursuant to the quarterly reporting mentioned above. Any overages or shortages are to be remitted by one Party to the other as indicated by the reports within 30 days of receipt of said

report. This agreement remains in effect until cancelled by either party upon ninety (90) days prior written notice.

A. Nevada Workers Compensation and Employers Liability Coverages

Administrative Services Agreement

Effective March 1, 2000, the Company entered into an administrative services agreement with Berkley Risk Administrators, LLC (BRAC), an affiliate. BRAC provides services related to the Nevada Workers' Compensation Plan. The service fee paid to BRAC is equal to the commission that the Company earns on the NCCI pool business.

Management Agreement

The Company and Southwest Risk Services (Southwest), a division of BRAC, entered into a management agreement on August 15, 1999. Under the terms of this agreement, Southwest acts as a manager on behalf of BRIC to do all things necessary and incidental to the conduct of the business written within the terms and conditions of the agreement. As noted in Appendix A of the agreement, Southwest is authorized to write workers compensation and employers liability coverages in the State of Nevada. Southwest submits a statement of account to BRIC on a quarterly basis.

Management Agreement

Effective August 1, 2002, the Company and BRAC entered into a management agreement where BRAC acts as manager on BRIC's behalf and has the authority to do all things necessary and incidental to the conduct of the business written within the terms of this agreement. As noted in Exhibit A of the agreement, BRAC is authorized to produce and service Workers Compensation and Employers Liability coverages in the State of Nevada, subject to the

policy limits stated in the agreement. BRAC charges BRIC on a quarterly basis for services rendered on an actual cost basis.

B. Tennessee Workers Compensation Insurance Plan

Administrative Services Agreement

Effective January 1, 2003, the Company and BRAC entered into an administrative services agreement. The Company also entered into a Servicing Carrier Agreement effective January 1, 2003 with the Tennessee Workers' Compensation Insurance Plan. Under the terms of the administrative services agreement, BRAC provides the personnel, resources and expertise to perform the work under the abovementioned Servicing Carrier Agreement on behalf of the Company. BRAC is compensated on a monthly basis for the actual cost of services rendered.

C. Other Management/Administrative Services Agreements

Administrative Services Agreement

Effective January 1, 1997, the Company entered into an administrative services agreement with Nautilus Insurance Company (Nautilus), an Arizona insurer and indirect wholly owned subsidiary of WRBC.

Management Agreement

Effective October 1, 1998, the Company and Berkley Risk Services LLP, (BRS) entered into a management agreement wherein BRS produces and services property and casualty insurance in several states on the Company's paper. BRS is compensated quarterly for services rendered on an actual cost basis.

Management Agreement

Effective October 1, 2000, the Company entered into a management agreement with Monitor Surety Managers, Inc. (Monitor), an affiliate. Monitor acts as a manager on BRIC's behalf to do all things necessary and incidental to the conduct of the Surety Business within the terms and conditions of this Agreement. The Company pays to Monitor a fee equal to the actual costs of services provided, which is paid on a quarterly basis.

Management agreement

Effective November 1, 2004, the Company and Berkley Specialty Underwriting Managers, LLC (BSUM), entered into a management agreement. BSUM acts as manager on behalf of the Company to produce, underwrite and service commercial property and casualty lines of business in 15 states and the District of Columbia, as detailed in Appendix A of the agreement. BSUM is compensated quarterly on an actual cost basis.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. As of December 31, 2004, the Company is a wholly owned subsidiary of Berkley Insurance Company, a Delaware company and the sole stockholder. The ultimate parent is W.R. Berkley Corporation (WRBC), an insurance holding company also domiciled in the State of Delaware.

WRBC is a United States Property and Casualty insurance and insurance services holding company with operations throughout the U.S., as well as London, Argentina, and Asia. WRBC is traded on the NYSE as "BER". As of December 31, 2004, WRBC reported assets of \$11.5 billion and stockholders' equity of \$2.1 billion on a GAAP basis.

An organizational chart listing the Holding Company System in which the Company was a member at December 31, 2004 is as follows:

Organizational Chart

Effective December 31, 2004

W. R. Berkley Corporation	
Berkley International, LLC	65%
Carolina Casualty Insurance Company	100%
Clermont Specialty Managers, Ltd	100%
Greenwich Knight Insurance Company, Ltd.	100%
J/I Holding Corporation	100%
Admiral Insurance Company	100%
Admiral Indemnity Company	100%
Berkley London Holdings, Inc.	100%
W.R. Berkley London Finance, Ltd	80%
W.R. Berkley London Holdings, Ltd	80%
W.R. Berkley Insurance (Europe), Ltd	100%
Berkley Risk Administrators Company, LLC	100%
Clermont Insurance Company	100%
Nautilus Insurance Company	100%
Great Divide Insurance Company	100%
Key Risk Management Services, Inc.	100%
Monitor Liability Managers, Inc.	100%
Monitor Surety Managers, Inc.	100%
Queen's Island Insurance Company, Ltd	100%
Signet Star Holdings, Inc.	100%
Facultative Resources, Inc.	100%
Vela Insurance Services, Inc.	100%
Berkley Insurance Company	100%
Berkley Regional Insurance Company	100%
Acadia Insurance Company	100%
Chesapeake Bay Property and Casualty Insurance Company	100%
Berkley Insurance Company of the Carolinas	100%
Continental Western Insurance Company	100%
Firemen's Insurance Company of Washington, D.C.	100%
Great River Insurance Company	100%
Tri-State Insurance Company of Minnesota	100%
Union Insurance Company	100%
Union Standard Insurance Company	100%
Gemini Insurance Company	100%
Key Risk Insurance Company	100%
Midwest Employers Casualty Company	100%
Preferred Employers Insurance Company	100%
Riverport Insurance Company	100%
Signet Star Re, LLC	100%
StarNet Insurance Company	100%
Berkley Underwriting Partners, LLC	100%

TERRITORY AND PLAN OF OPERATION

Berkley Regional Insurance Company, (the Company, or BRIC), is a wholly owned subsidiary of Berkley Insurance Company (BIC). BRIC provides a reinsurance facility for nine wholly-owned and one affiliated regionally operated insurance companies, referred to collectively as the Regional Group.

The Group consists of Acadia Insurance Company, Continental Western Insurance Company, Chesapeake Bay Property and Casualty Insurance Company, Firemen's Insurance Company of Washington D. C., Tri-State Insurance Company of Minnesota, Union Insurance Company, Great River Insurance Company, Union Standard of Lloyds, Berkley Insurance Company of the Carolina's and Union Standard Insurance Company. See also **"Assumed Reinsurance – Affiliates"**.

The Company entered into a 100% multiple line quota share reinsurance contract with its eight direct subsidiaries and two indirect subsidiaries effective January 1, 2000, except for Firemen's which was effective April 1, 2001, whereby the Company assumes all of the subsidiaries net underwriting business. Simultaneous therewith, the Company assumed their beginning loss reserves, loss adjusting reserves, unearned premium reserve and policyholder dividends payable liability in exchange for securities and other assets. Although the subsidiaries ceded all their net underwriting business to the Company, they retain all investment income and expenses.

In addition, since the Company is licensed in all 50 states plus the District of Columbia in virtually all classes of business, a fronting arrangement, where necessary, may be provided for some affiliates.

Direct

The Company's paper is used to write a modest sized block of Workers' Compensation and Surety business. This is done as an accommodation to the affiliated underwriting manager who also has access to other affiliated companies' paper as well. The Workers Compensation business is 100% reinsured with the state assigned risk program with each reinsurer participating on each other's business. The Surety risks are retained by the Company. The Company's direct writings during the examination were:

Year	Direct Written Premiums
2001	\$ 10,472,297
2002	\$ 16,244,191
2003	\$ 38,612,117
2004	\$ 41,856,927

The Company's direct business written of \$41 million was just 3% of the total net premiums written of \$1,336 million for the year ending 2004. The Company operates on a nationwide basis and was licensed as an insurer in all states and the District of Columbia.

BRIC primarily serves as a property and casualty reinsurer of Berkley's regional insurance companies, and provides a supplemental vehicle for policy issuance for the regional companies, as well as other affiliated members of Berkley. As a direct insurer, BRIC is used primarily to accommodate the national insurance business of the regional companies and to accommodate business opportunities as they arise. The regional companies under BRIC write multiple property and casualty lines of business, such as fire, extended coverage, homeowners, farm owners, commercial fire, commercial multi-peril, inland marine, boiler and machinery, burglary and theft, crop, glass, vehicle liability and physical damage, other liability, workers compensation, fidelity, and surety.

Berkley's regional insurance companies are grouped into four geographic regions, the lead companies in each of the four geographic regions are:

- *New England* – Acadia Insurance Company
- *Mid Atlantic* – Firemen’s Insurance Company of Washington, D.C.
- *Midwest* – Continental Western Insurance Company
- *Southern* – Union Insurance Company

The management and operations of the companies in each region is provided by the lead company.

New England

Acadia does business primarily in four New England states: Maine, New Hampshire, Vermont and Massachusetts. Acadia provides a full range of property and casualty coverage, including specialized products such as marine and fidelity and surety. The New England Region also includes Chesapeake Bay Property and Casualty Insurance Company.

Midwest

Continental Western underwrites commercial property insurance in 20 states in the Midwest and Pacific Northwest, with particular strength in agricultural coverage, commercial transportation, workers’ compensation personal lines and coverage tailored to the needs of mid-sized businesses and governmental entities. In addition to Continental Western, the Midwest Region is served by Tri-State Insurance Company of Minnesota and Union Insurance Company.

Mid-Atlantic

Firemen’s Insurance Company of Washington, D.C. provides commercial property casualty insurance in six states: Pennsylvania, Delaware, Maryland, Virginia, North Carolina and South Carolina as well as the District of Columbia. The Mid Atlantic Region is also serviced by Berkley Insurance Company of the Carolinas.

Southern

Union Standard Insurance Group writes a broad range of commercial lines in nine southern and southwestern states, with a strong presence in many rural markets. Union Insurance Company, Great River Insurance Company, Union Standard Insurance Company and Union Standard Lloyds are also part of the Southern Tier.

The business strategy for the regional insurance operation is being refined currently with a separate focus on commercial lines. The Regional Group plans to reduce the number of issuing regional companies and continue to write in the states currently serviced by the regional insurance companies operations. The regional insurance companies utilize licensed and qualified independent agents to market their products.

A. Marketing

BRIC has no sales staff or agents when acting in its capacity as a reinsurer as most of BRIC's reinsurance is provided for affiliated companies. To the extent BRIC underwrites direct business, it is based on business opportunities originating with other WRBC companies and from the producers of those companies. The regional companies utilize the independent agency system.

B. Underwriting

As previously noted, BRIC issues direct policies where necessary to service clients of affiliated insurers. Accordingly, BRIC uses the underwriting skills of its affiliates where necessary. See also "**AFFILIATED AGREEMENTS – Underwriting/Claims Services**".

C. Claims Adjusting/Payment

BRIC's reinsurance activities do not require adjustment of direct insurance claims. With regard to claims on direct business, claims are handled by one of BRIC's affiliates. See also **"AFFILIATED AGREEMENTS – Underwriting/Claims Services"**.

D. Advertising

Because of the limited scope of BRIC's activities, it does not plan to advertise.

REINSURANCE

For 2004, the Company reported the following distribution of net premiums written:

Direct business	\$41,856,927
Reinsurance assumed (from affiliates)	1,294,816,162
Reinsurance assumed (from non-affiliates)	0
Total direct and assumed	1,336,673,089
Reinsurance ceded (to affiliates)	5,627,842
Reinsurance ceded to (non-affiliates)	189,653,430
Total ceded	195,281,272
Net premiums written	1,141,391,817

A general outline of the significant assumed reinsurance agreements in effect at December 31, 2004 follows:

Assumed Reinsurance – Affiliates

As of December 31, 2004, the Company had ten assumed reinsurance agreements in effect, all with affiliates. The three largest agreements were with Continental Western Insurance Company (CWIC) (42.2%), Acadia Insurance Company (Acadia) (22.9%), and Firemen's Insurance Company of Washington DC (Firemen's) (18.5%). The balance of the total from affiliates (16.4%) was derived from Berkley Insurance Company of the Carolinas, Carolina Casualty Insurance Company, Great River Insurance Company, Tri-State Insurance Company of Minnesota, Union Insurance Company, Union Standard Insurance Company and Union Standard Lloyds Insurance Company.

Continental Western Insurance Company

Effective January 1, 2000, the Company entered into a 100% quota share agreement with CWIC, whereby the Company assumes any and all policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date. The 2004 premium assumed from CWIC totaled \$546,270,000.

Acadia Insurance Company

Effective January 1, 2000, the Company entered into a 100% quota share agreement with Acadia, whereby the Company assumes any and all policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date. The 2004 premium assumed from Acadia totaled \$296,041,000.

Firemen's Insurance Company of Washington D C

Effective April 1, 2001, the Company entered into a quota share agreement with Firemen's, whereby the Company assumes any and all policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date. The 2004 premium assumed from Firemen's totaled \$238,941,000.

Assumed Reinsurance – Non-Affiliates

There was no Assumed Reinsurance from non-affiliated Companies.

Ceded

The Company retains a significant percentage of its gross premiums; however, the largest net amount insured on any one risk is \$5,000,000. In 2004, the examination noted the Company

retained approximately 85.4% of direct and assumed premiums. The Company maintains various quota share and excess of loss reinsurance agreements which are predominantly covered by authorized reinsurers.

Property Catastrophe Excess of Loss

Effective January 1, 2004, the Company maintained (on behalf of the pooled companies) several layers of property catastrophe protection providing for coverage above \$7.5 million up to \$60.0 million (total limit: \$52.5 million).

Property Per Risk

Effective April 1, 2004, the Company maintained (on behalf of the pooled companies) several layers of property per risk protection providing for coverage above \$2 million up to \$20.0 million (total limit: \$18 million).

Casualty Contingency

Effective January 1, 2004, the Company maintained (on behalf of the pooled companies) several layers of casualty contingency protection providing for coverage above \$2 million up to \$20.0 million (total limit: \$18 million) for all policies except workers compensation policies. The reinsurance policy provides coverage above \$5 million up to \$20 million (total limit: \$15 million) for worker compensation policies.

Property Terrorism

Effective April 1, 2004, the Company maintained (on behalf of the pooled companies) several layers of property terrorism protection providing for coverage as described below.

If a loss is due to terrorism, the coverage under the property per risk and property terrorism contracts are coordinated in the following manner. If the incurred loss to the insurance industry is less than \$100 million, there is \$41.5 million of aggregate coverage and per

occurrence coverage provided by the property per risk contract. If the incurred loss to the industry is at/or greater than \$100 million, \$18 million of aggregate coverage and per occurrence coverage is provided by the property per risk contract, and the 1st and 2nd layers of the terrorism back-up contract provide an additional \$32.5 million of aggregate coverage and per occurrence coverage.

Umbrella Liability

Effective April 1, 2004, the Company maintained (on behalf of the pooled companies) one layer of protection providing for coverage above \$1 million up to \$10.0 million (total limit: \$9 million).

Surety Excess of Loss per Principal Surety Reinsurance Contract

Effective January 1, 2004, the Company maintained (on behalf of the pooled companies) several layers of Surety Excess of Loss protection. Coverage is per principal excess of loss that provides 85% for the \$5 million xs \$5 million and 85% for \$10 million xs \$10 million (total limit: \$10 million).

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the four and one half years (4 ½) from its last examination June 2000, through this examination, 2004:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards To Policyholders</u>	<u>Gross Written Premiums</u>	<u>Net Income (Loss)</u>
2004	\$ 1,946,762,364	\$ 632,048,622	\$1,336,673,089	\$ 114,544,603
2003	1,664,915,058	537,728,009	1,177,546,252	88,150,942
2002	1,377,168,270	389,732,458	798,176,727	89,765,883
2001	1,208,575,509	326,189,170	754,887,643	13,065,333
2000	1,136,308,578	243,486,972	312,150,471	(6,514,577)

Overall, assets increased \$282 million or 16.9 % to \$1.9 billion in 2004 from \$1.7 billion in 2003. Policyholder surplus increased \$94 million or 17.5 % to \$632 million in 2004 from \$538 million in 2003. The Company's Surplus as regards policyholders increased almost 38% (or a \$148 million) from 2002 to 2003. Per the Company's 2003 Management's Discussion and Analysis, this increase was due to improved underwriting results due to the ceding companies instigating positive steps in 2001 and 2002, such as substantial rate increases on commercial lines where possible, re-underwriting commercial lines and withdrawing from the personal lines of business.

Net income (loss) results for the examination period ranged from a low of (\$6.5) million net loss for the last six months of 2000 to a net income high of \$114.5 million in 2004. Net income in 2002 increased 587% or \$77 million over 2001. Per the Company's 2002 Management's Discussion and Analysis, the same factors described for 2003 caused the increased net income in 2002.

ACCOUNTS AND RECORDS

The accounting and financial reporting functions are performed out of Continental Western Insurance Company (CWIC), located at 11201 Douglas Avenue, Urbandale, Iowa, 50322. As mentioned under “Affiliated Agreements”, BRIC has a Cost Sharing Agreement in effect with CWIC. Investment functions are performed at the offices of W. R. Berkley Corporation, located at 475 Steamboat Road, Greenwich, Connecticut, 06830, pursuant to the Investment Advisory agreement with Berkley Dean and Company.

A high-level assessment of the internal control structure and process for the Company’s accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the internal control structure of the Berkley Regional Insurance Group.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company’s external accounting firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2004 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure. The Company does not maintain an internal audit department.

The closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2004 indicated that the balances supported the financial data of the Company's 2004 annual statement.

Based on the examination review of Annual Statement classifications and subsequent discussions with management, the accounting system and procedures conformed to insurance accounting standard practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2004
Liabilities, Surplus and Other Funds December 31, 2004
Underwriting and Investment Exhibit - Statement of Income, 2004
Capital and Surplus Account for the one year period ending December 31, 2004

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Analysis of Assets
December 31, 2004

	<u>Ledger</u> <u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$863,031,504		\$863,031,504	1
Preferred stock	71,206,180		71,206,180	
Common stocks	407,228,159	230,325	406,997,834	2
Cash and short-term investments	137,344,773		137,344,773	
Other invested assets	92,813,570		92,813,570	
Aggregate write-ins for invested assets	198,870		198,870	
Investment income due and accrued	12,052,153		12,052,153	
Agents' balances or premiums in course of collection	110,882,087	150,940	110,731,147	
Premiums, agents' balances and installments booked but deferred and not yet due	193,458,314	0	193,458,314	
Amounts recoverable from reinsurers	8,636,568		8,636,568	
Federal income tax recoverable	903,467		903,467	
Net deferred tax asset	65,933,763	17,044,000	48,889,763	
Guaranty funds receivable	428,398		428,398	
Aggregate write-ins for other than invested assets	69,823		69,823	
Total Assets	<u>\$1,964,187,629</u>	<u>\$17,425,265</u>	<u>\$1,946,762,364</u>	

Liabilities, Surplus and Other Funds
December 31, 2004

		<u>Note</u>
Losses	\$ 614,891,919	3
Loss adjustment expenses	145,600,640	3
Commissions payable and contingent commissions	146,125	
Other expenses	625,738	
Taxes, licenses and fees	(298,443)	
Unearned premiums	525,964,068	
Dividends to policyholders	1,200,000	
Ceded reinsurance premiums payable	7,852,512	
Funds held by company under reinsurance treaties	463,701	
Provision for reinsurance	625,840	
Payable to parent, subsidiaries and affiliates	1,466,411	
Payable for securities	5,103,577	
Aggregate write-ins for liabilities	11,071,654	
	<hr/>	
Total Liabilities	\$1,314,713,742	
	<hr/>	
Special surplus from retroactive reinsurance	\$1,002,875	
Common capital stock	4,000,000	
Gross paid in and contributed surplus	347,722,886	
Unassigned funds (surplus)	279,322,861	
	<hr/>	
Surplus as Regards Policyholders	\$632,048,622	
Total surplus and liabilities	<u>\$1,946,762,364</u>	

Underwriting and Investment Exhibit - Statement of Income
Year Ended December 31, 2004

UNDERWRITING INCOME

Premiums earned	\$1,073,639,076
Losses incurred	472,548,495
Loss expense incurred	122,070,993
Other underwriting expenses	347,959,024
Total underwriting deductions	<u>942,578,512</u>
Net underwriting gain or (loss)	131,060,564

INVESTMENT INCOME

Net investment income earned	40,991,082
Net realized capital gains or (losses)	<u>11,994,390</u>
Total investment income	52,985,472

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	0
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	0

Net income before dividends to policyholders and federal income taxes	184,046,036
Dividends to policyholder	<u>4,960,150</u>
Net income after dividends to policyholders and before federal income taxes	<u>179,085,886</u>
Federal and foreign income taxes incurred	<u>64,541,283</u>
Net income	<u>\$114,544,603</u>

Capital and Surplus Account
December 31, 2004

Surplus as regards policyholders, December 31, 2003	<u>\$537,728,009</u>
Net income	114,544,603
Change in net unrealized capital gains or (losses)	44,036,023
Change in net unrealized capital gains or (loss)	18
Change in net deferred income tax	23,616,635
Change in non-admitted assets	(17,376,114)
Change in provision for reinsurance	999,449
Dividends to stockholders	<u>(71,500,000)</u>
Change in surplus as regards policyholders for the year	\$94,320,614
Capital and surplus, December 31, 2004	<u>\$632,048,622</u>

NOTES TO FINANCIAL STATEMENTS

Note 1

Bonds

\$863,031,504

Procedures were performed to confirm the existence and ownership of the bond investments reported in Schedule D, Part 1 of the 2004 Annual Statement. These procedures were performed without exception. The Company's bond portfolio comprised 44.33% of total admitted assets as of December 31, 2004. The Company's bonds (99.9%) were rated Class 2 or better by the NAIC Securities Valuation Office.

Note 2 – Common stocks

\$406,997,834

Procedures were performed to confirm the existence and ownership of common stock investments reported in Schedule D, part 2.2 of the 2004 Annual Statement. The Company's largest holdings are investments in its subsidiaries, which comprised approximately \$355 million of total common stock investments, and were valued according to the book value reported on each company's respective 2004 Annual Statement. The Company's common stock holdings comprised 20.9% of total admitted assets as of December 31, 2004.

Note 3 – Losses

\$614,891,919

Loss adjustment Expense Reserves

\$145,600,640

INS Consultants, Inc. (*INS*) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. Based on their review, the Company's reported total loss and loss adjustment expense reserves at December 31, 2004 of \$760,492,559 (comprised of loss reserves of \$614,891,919 and loss adjustment expense reserves of \$145,600,640) were overstated by approximately \$3.7 million.

This difference of \$3.7 million represents -0.5% of December 31, 2004 net Annual Statement reserves. This difference was not considered material to the examination.

The INS analysis is net of reinsurance and does not address the collectibility of reinsurance recoverables.

The underlying data was tested through a review of open and paid claim files and actual payments made, with no exceptions noted. The aggregated actuarial data provided by the Company, was verified and balanced to Schedule P of the Company's filed annual statement.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was a prior exam recommendation. All prior examination recommendations were either directly or indirectly addressed subsequent to the previous examination.

RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between examination periods.

Description	12/31/04 Current Examination	06/30/00 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$1,946,762,364</u>	<u>\$1,136,308,578</u>	<u>\$810,453,786</u>
Liabilities	\$1,314,713,742	\$892,821,606	\$421,892,136
Special surplus from retroactive reinsurance	1,002,875	0	1,002,875
Common capital stock	\$4,000,000	\$4,000,000	0
Preferred stock	0	650,000	(650,000)
Gross paid in and contributed surplus	347,722,886	387,072,886	(39,350,000)
Unassigned funds (surplus)	<u>279,322,861</u>	<u>(148,235,914)</u>	<u>427,558,775</u>
Total capital and surplus	\$632,048,622	\$243,486,972	388,561,650
Totals	<u>\$1,946,762,364</u>	<u>\$1,136,308,578</u>	<u>\$810,453,786</u>

In addition to the undersigned, acknowledgment is made of the assistance provided by the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,



Douglas E. Bey, CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

- 1) Effective January 1, 2005, the Company entered into an Investment Management Agreement with Steamboat Asset Management, LLC (Steamboat), which was approved by the Delaware Department of Insurance. Under the terms of this agreement, Steamboat acts as investment manager for certain assets of BRIC.
- 2) On March 31, 2005, BRIC purchased 150,000 shares of Chesapeake Bay Property and Casualty Insurance Company (Chesapeake) from its wholly owned subsidiary Acadia Insurance Company. The purchase price of \$22,002,106 represented the statutory book value of Chesapeake as of March 31, 2005. A copy of the Purchase Agreement was filed with the Delaware Department of Insurance with Amendment No. 4 to Form B dated April 14, 2005. On June 22, 2005, Chesapeake was renamed Berkley Regional Specialty Insurance Company.
- 3) Pursuant to Notice to the Delaware Department of Insurance, on June 22, 2005, BRIC paid a \$100,000,000 ordinary dividend in the form of cash and securities to its immediate parent, Berkley Insurance Company.